WORLD BANK NEWS

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LENDING

# Bank Prepares Emergency Help for Massive Russian Oil Spill

Russia is racing the calendar to clean up an arctic oil spill before the spring thaw releases additional thousands of tons of oil into nearby waterways. To speed the process, the World Bank this week completed negotiations with Russia for a $99 million loan for an emergency oil spill recovery project. The project will provide vital assistance to the overwhelmed clean-up effort in the Komi Republic in northern Russia near the Arctic Circle.

"The project is designed to reduce the extent of the looming environmental disaster," says Jonathan Brown, chief for Infrastructure, Energy and Environment in the Bank's Russia Department, "and to support investments and changes in operating procedures to ensure that future oil transport in the Komi Republic is done in an environmentally sustainable way."

The Komi spill occurred last fall as a consequence of leaks from the regional Kharyaga-Usinsk oil pipeline, about 1,600 kilometers (1,000 miles) northeast of Moscow. Temporary dams and dikes failed to contain the oil and contributed to significant environmental damage and risks to human health. More than 100,000 tons (730,000 barrels) are estimated to remain trapped in bogs and creek beds, three times the amount released during the Exxon Valdez oil spill, and are at risk of release once the spring thaw raises water levels by up to 9 meters (30 feet). To prevent further contamination of downstream rivers and the Barents Sea, construction of new containment structures and reinforcement of existing struc-

Troubled waters.

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# Oil Clean-up is a Race With Weather

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tures are urgently required before the thaw, which usually begins in early May.

The Russian Government and the pipeline operator, Komineft, have been unable to mobilize the resources to cope with the massive spill. In January, Russia asked the Bank for assistance, and emergency preparations were launched immediately to finance the clean-up, repair the pipeline, provide assistance to affected people and develop a long-term plan to prevent future spills.

The project will assist Komineft and the Russian Federation to:

- contain the oil in the spill area before the spring thaw to minimize the amount of oil released during runoff and reduce ecological damage in the Pechora River Basin;
- continue the clean-up in an environmentally appropriate way and minimize to the extent possible, given the limited time available and difficult site conditions, damage to the affected areas;
- support safe pipeline operations in the near term and evaluate the need for a replacement pipeline investment project for the longer term; and
- identify and implement other measures to mitigate against future oil spills.

The project will also help increase Komineft's capacity for emergency oil spill repair, containment and recovery; and provide for studies for future oil transport options, including a possible dry oil pipeline, to prevent similar spills in the Komineft system.

The project will be implemented by Komineft with assistance from an international management contractor—a consortium of some of the world's foremost oil spill clean-up experts, with experience in land clean-up under Arctic conditions.

Given the time constraints and complexity of the operation, there is a high risk that the project will not completely prevent substantial environmental damage. According to Douglas McKay, a project task manager, "We may simply lose the race against time, and an earlier than usual spring thaw may not allow for the full completion of containment structures."

Jan Pakulski/World Bank

Surveying a sea of sludge.

Besides, the replacement of a critically weak section in the middle of the pipeline, a good part of which is inaccessible in the summer, will also be difficult in the short time available until the thaw sets in. "Complete success of these operations is unlikely. Oil will be spilled into the river systems and there will continue to be a risk of further leaks from the pipeline. However, partial success is better than inaction," says McKay, as even limited clean-up and containment far outweigh the negative environmental consequences of waiting until next winter.

The project's total cost is estimated at $140 million, including higher than usual contingencies, due to the uncertainty about the amount of oil that will flow into the river systems after the spring thaw, which would require immediate and extensive recovery operations.

The proposed loan has been submitted to the World Bank Board of Executive Directors for consideration in the near future.□

☎For More Information *on the Russia Emergency Loan, contact Jan Pakulski at (202)473-1797.*

# Powering Ukraine's Economic Growth

Ukraine, with its highly educated labor force, fertile lands, abundant natural resources and proximity to European markets, has tremendous growth potential. Although the country is still grappling with staggering inflation, lagging exports and other economic failings, its industrial and agricultural sectors are poised to boost significantly Ukraine's shift to a market system.

One key to that future growth lies in efficiently, and sustainably, meeting energy demands. Ukraine now imports about half of its energy, buying crude oil, petroleum products and natural gas mainly from Russia and Turkmenistan. By late 1994, overdue payments for imported gas exceeded $2 billion. And the country's energy use in relation to GDP is several times higher than in most developed countries.

Now, a $114 million World Bank loan approved April 11 will help improve the efficiency, reliability, safety and environmental performance of Ukraine's hydropower plants, the country's lowest-cost source of power. The loan will also foster more efficient power dispatch of all power plants with improved communications, command and control systems throughout the grid. The life of the nine major hydropower plants will be extended by about 20 years by the project. Better environmental performance of these plants will reduce river pollution, while improved monitoring of dams and reservoirs will reduce the risk of dam

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**REPORTS**

# MIGA Posts Robust 3rd Quarter

In the third quarter of fiscal 1995, the Bank's Multilateral Investment Guarantee Agency (MIGA) issued 12 political risk investment insurance contracts to investors for projects in seven developing countries. The guarantees totalled $92.9 million in new coverage. MIGA is the World Bank Group agency that promotes private investment in developing countries by providing insurance to protect investors from non-commercial risks.

The new contracts bring MIGA's total for the first three quarters of the fiscal year to 40 contracts totaling $405 million, surpassing the agency's mark for all of 1994.

MIGA guarantees so far this year have facilitated more than $650 million in direct investment to 16 developing member countries. MIGA guarantees were issued for the first time for investments in South Africa, Costa Rica, Honduras, Morocco and the Philippines.

Projects have ranged from a state-of-the-art paperboard printing factory in the Czech Republic to an expanded denim textiles plant in Argentina to a coffee bean processing and export facility in Uganda to gold mining in Peru and Uzbekistan. And MIGA receives about 50 new preliminary applications for coverage a month.

"Country and sectoral distribution of MIGA-insured projects continues to improve, and prospects for future business are excellent," says Akira Iida, MIGA's executive vice president.

Seven new countries have joined MIGA this fiscal year (Benin, Equatorial Guinea, Mozambique, The Bahamas, Lebanon, Ukraine and Viet Nam), bringing membership to 128 countries. An additional 22 countries are in the process of fulfilling membership requirements. □

☎For More Information *on MIGA, contact Shaila Fernandes at (202) 473-8058.*

## WORLD BANK ROUNDUP

**CAMEROON** Cameroon's transportation systems are dominated by cumbersome, weakly managed public enterprises. Seven of the nine enterprises are technically bankrupt. Transport costs—including costs for crucial international trade—are excessively high and harm Cameroon's economic recovery. But the government's transport reforms are picking up momentum. A new $10.2 million credit from the International Development Association (IDA) approved April 11 will help Cameroon in a broad range of transport reforms, including privatization plans for the airline, rail, shipping companies; a shift toward contract road maintenance; agency and regulatory reform; and management training programs. Contact Eric Chinje at (202) 473-4467.

**PAKISTAN** The International Finance Corporation (IFC) on April 17 signed an agreement to provide up to $49.5 million to AES Lal Pir (Pakistan) Ltd., a Pakistan-based company, to build, own and operate a 362 - megawatt power plant in the country. The plant will be one of the first projects under Pakistan's new policy to encourage private investment in power generation by providing attractive returns to investors. IFC's financing consists of a $40 million loan and a 10 percent equity investment in AES Lal Pir's share of capital worth $9.5 million. The total project cost is approximately $344 million. Contact L. Joseph at (202) 473-7700

**RUSSIA** The IFC on April 5 approved a $1.5 million equity investment for a 15 percent shareholding in the Russia Registry Company. The company—the first joint-venture share company in Russia—will serve the capital markets with independent share registration and transfer services that meet international standards. Russia's nascent capital markets face an increasing demand for more reliable and transparent share registration driven by 35 to 40 million shareholders and more than 14,000 newly privatized large companies. Contact Amy Conran at (202) 473-9119.

**SIERRA LEONE** In Freetown, Sierra Leone's capital city, the water system is in poor repair and most residents have to rely on septic tanks, pit latrines or bucket latrines. Many residents are without any means of domestic sanitation, which leads to serious health and environmental risks—especially for the poor. A $36 million credit, approved by IDA on April 11, will help Freetown improve its water and sanitation services. The project will rehabilitate the water supply network and the small sewerage system, establish a low-cost sanitation program in low-income areas and improve management of water and sanitation agencies. The project will also help prepare master plans for other major towns. Contact Eric Chinje at (202) 473-4467.

VERBATIM *World Bank Managing Director Gautam Kaji spoke April 11 to Bombay's financial community on India's ongoing economic transformation. Below are excerpts from his speech.*

# India's Transformation

"India deserves tremendous credit for its performance in recent years. Since 1991, it has overcome an economic crisis and implemented a series of structural reforms encompassing investment and trade.

Gautam Kaji

Economic growth has recovered and promises to increase significantly. Exports are increasing rapidly. India has opened up to the rest of the world—attracting around $6 billion in private capital flows last year compared with virtually zero three years ago.

This new external orientation reinforces some of the country's traditional internal strengths, of which we have been justifiably proud: the world' largest democracy; a sound legal system and independent judiciary; a free press; a well-developed private sector; and an established financial system and stock market.

The combination of new and old is leading many to think boldly about this nation's future and its place in the world. In the past, India has rarely been perceived as a potential global economic power. Today, more and more people recognize that this is possible. India has much cause for celebration.

But it has no cause for complacency. To be sure, India has done well by many measures compared with some Latin American and African countries. But its progress has not been nearly as fast as in East Asia's rapidly growing economies.

Numbers tell part of the story: India's average annual growth rate of around 5 percent over the last decade is well below the double-digits achieved by some East Asian nations. India's share of global trade, though increasing, still stands at below 1 percent—less than Malaysia's, a country of only 19 million people. And the $6 billion in foreign investment attracted here last year compares with $26 billion drawn to China alone.

And there is an even greater concern. It can be too easily forgotten that the whole point of economic growth is improvement in human welfare and living conditions. And on that fundamental score, India has not done well compared with the East Asian economies.

In terms of broad policies, there is much to be gleaned from East Asia's focus on a cluster of fundamental elements: macroeconomic stability, steady investment in people, high rates of domestic savings and investment, openness and export-orientation, and—above all—flexibility in adjusting to changes in the global marketplace.

India has made substantial progress on the key macroeconomic issues, although it needs now to stay the course and push harder. The budget deficit and inflation remain at worrying levels—and an expansion of the fiscal deficit, history tells us, is a sure recipe for disaster. While great progress has been made in reducing trade protection and enhancing industrial competitiveness, a significant reform agenda remains there. The tax and banking systems also require further efforts.

Microeconomic reforms have increased the economy's flexibility. But further progress is also needed here. This is a particularly tricky area, since economic efficiency requires that individuals be prepared to face major changes in the way they work.

Reducing poverty is unquestionably the most critical challenge that India faces. When India's growth increased in the 1980s, the proportion of the poor declined. This suggests that, as in East Asia, accelerated growth holds the key to large reductions in the number of poor people. Greater investments in human resources—and especially education—are essential for both generating higher rates of growth and reducing poverty in India. This will require a shift in public resources to the social sectors and, within the social sectors, to the provision of basic services. It will also require more effective implementation of India's anti-poverty programs—ensuring that the benefits reach their target groups and are not preempted by the bureaucratically more adept."

C. Carnemark/World Bank

## Development Agenda

| Date | Event | Sponsor | Location | Telephone |
|---|---|---|---|---|
| **APRIL** | | | | |
| 20-21 | Pakistan Consortium Meeting | World Bank | Paris | (33-1)4069-3016 |
| 24-25 | IDA Deputies Meeting | World Bank | Washington | (202)473-1787* |
| 24-28 | Spring Meetings | World Bank | Washington | (202)473-1787* |
| 25-26 | Bangladesh Aid Group Meeting | World Bank | Paris | (33-1)4069-3016 |
| 27-28 | Sri Lanka Aid Group Meeting | World Bank | Paris | (33-1)4069-3016 |
| 27-28 | Transport India 95 | Indian Ministry of Surface Technology and Ministry of Railways | Singapore | (202)458-2838* |
| **MAY** | | | | |
| 1-2 | Annual Bank Conference on Development Economics | World Bank | Washington | (202)473-2475* |
| 9 | Environment for Development | The New England Environment Expo | Belmont, MA | (202) 473-3676* |
| 11 | Presentation: General Overview of Economic Development in Middle East and North Africa | Japan Int'l University | Japan | (202)473-2318* |
| 17 | Panel Discussion on the Role of Multilaterals in Developing Infrastructure in Latin America | World Congress, Inc. | Mexico City | (202)473-2763* |
| 26 | Kazakhstan Consultative Group Meeting | World Bank | Paris | (33-1)4069-3016 |
| 29 | Azerbaijan Consultative Group Meeting | World Bank | Paris | (33-1)4069-3016 |
| 30 | Kyrgyz Republic Consultative Group Meeting | World Bank | Paris | (33-1)4069-3016 |
| 29-31 | Latin American Power Industry Summit | AIC Conferences | Santiago | (202)473-1033* |

**Editor's Note**: *Development Agenda* is a feature that alerts journalists to key news events in the field of economic development. Journalists should contact sponsoring agencies for details about each event. Asterisk (*) indicates telephone number is in the U.S.A. All other telephone numbers include country and city codes.

# Ukraine Boosts Efficiency, Lowers Risk of Power System

UKRAINE, *from page 2*

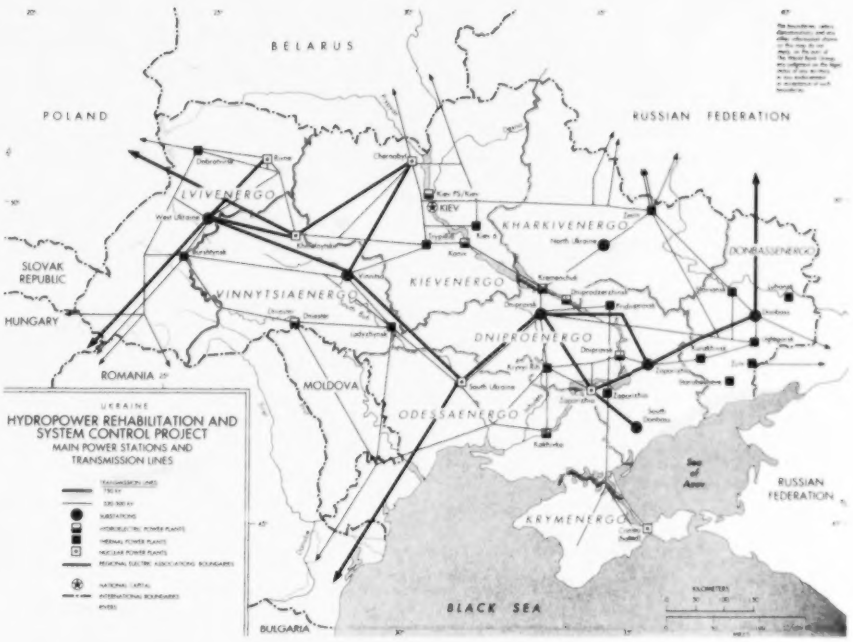
breaks. And Ukrainian households and factories will enjoy more reliable electricity.

"This project is a positive step that should help eliminate or reduce the rotating blackouts several cities experienced last winter," says Laszlo Lovei, an infrastructure specialist in the Bank's Europe and Central Asia Region and task manager for the project.

The Ukrainian power industry was developed as part the integrated power system of the former Soviet Union. The new loan backs the government's ongoing effort to adapt existing utilities to the requirements of a new market economy. Increased generation efficiency will also reduce fuel costs and improve Ukraine's balance of payments. Also, improving the quality of electricity supply will facilitate the modernization of industry and encourage foreign investments. In the past, damaging fluctuations of electrical frequency have posed a risk to electricity equipment for both consumers and producers of power.

"Stabilizing the frequency of the power supply will positively affect the safety of Ukraine's nuclear plants," says Lovei. The Soviet system historically favored natural gas and nuclear power at the expense of other plants, and nuclear power now accounts for a third of Ukraine's power supply, including the still on-line Chernobyl plant.

The loan reflects the Bank's commitment to electric power projects in countries working to improve their power industries through commercialization, corporatization and improved, more transparent regulation. Ukraine plans for electricity prices to be market driven by the end of 1995.□




☎For More Information *on Ukraine and the World Bank, contact Jan Pakulski at (202)473-1797.*

## Annual Economic Report Briefing

Journalists are invited to an April 17 press briefing on the World Bank's Global Economic Prospects and the Developing Countries 1995, the Bank's annual look at the economic performance of developing countries, the growth in world trade and international economic integration. This year's report, to be released April 18, focuses on globalization.

Masood Ahmed, director of the Bank's International Economics Department, will conduct the briefing. It will be at 10:30 a.m., Monday, April 17, in the street level auditorium of the Bank's "J" building, 701 18th St., NW, Room 1050.

*For more information, contact Rebeca Robboy at (202) 473-0699.*

WORLD BANK NEWS

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